

27 Mar 2024

Buy

Price
 RM3.91

Target Price
 RM4.40 (from RM4.15)

Market Data

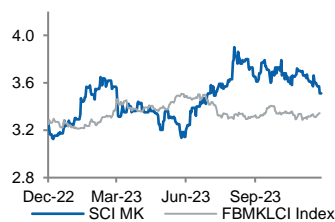
Bloomberg Code	SCI MK
No. of shares (m)	1,551.3
Market cap (RMm)	6,065.6
52-week high/low (RM)	4.05 / 3.16
Avg daily turnover (RMm)	1.3
KLCI (pts)	1,538.4
Source: Bloomberg, CIMB Securities	

Major Shareholder (%)

Scientex Holdings Sdn Bhd	(21.0%)
Scientex Infinity Sdn Bhd	10.6%
Scientex Leasing Sdn Bhd	(9.1%)
Free Float	33.7
Source: Bloomberg, CIMB Securities	

Performance

	3M	6M	12M
Absolute (%)	(6.0)	6.5	0.9
Rel Market (%)	(5.4)	1.3	3.0



Source: Bloomberg, CIMB Securities

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Scientex

Expect stronger earnings in 2HFY24F

Scientex 1HFY7/24 CNP exceeded expectations, due to higher profit margin achieved by its packaging segment through productivity gains, despite challenges from soft export demand. While property launches in 1HFY7/24 fell short of expectations, momentum is expected to increase in 2HFY7/24. Reiterate Buy with a higher SOP-based TP at RM4.40.

Financial Highlights

FYE Jul	2022	2023	2024F	2025F	2026F
Revenue (RMm)	3,985.3	4,076.9	4,407.9	4,699.0	4,991.4
Core net profit (RMm)	419.0	474.2	562.1	598.1	636.8
Core EPS (Sen)	27.0	30.6	36.2	38.6	41.1
EPS growth (%)	(7.8)	13.2	18.5	6.4	6.5
DPS (Sen)	9.0	10.0	11.0	12.0	13.0
Core PE (x)	14.5	12.8	10.8	10.1	9.5
Div yield (%)	2.3	2.6	2.8	3.1	3.3
ROE (%)	12.4	12.1	14.0	13.5	13.1
Net Gearing (%)	31.5	19.8	18.9	18.2	10.3
PBV(x)	2.0	1.8	1.6	1.5	1.3

Source: Company, CIMB Securities

1HFY7/24 results above our expectations but in line with consensus

In 2QFY7/24, Scientex reported a core net profit (CNP) of RM132m (-2.4% qoq, +17.7% yoy), We have excluded one-off exceptional items of RM9m (primarily arising from gains on disposal of investments in joint ventures) in our CNP calculation. This brought 1HFY7/24 CNP to RM267m (+18.8% yoy), which we deem as above our (54% of our full-year estimates) but in line with the street's expectations (49%). The better-than-expected results were due to stronger-than-expected profit margin from its packaging segment due to operational efficiency gains. As expected, no dividend was declared in 2QFY24. Scientex typically declares dividends in the third and fourth quarters (FY23: 10 sen).

Soft export demand weighed down the packaging segment; but orders picking up

2QFY/24's revenue for Scientex's packaging segment fell 2.2%/2.9% qoq/yoy. This decline was due to softer export demand for its consumer packaging products. That said, its EBIT improved significantly to RM64m (+26.8% qoq, +9.7% yoy) in 2QFY/24 as a result of the stronger EBIT margin of 10.1% due to efficiency gains. Scientex revealed at its briefing that there has been a gradual pickup in customer orders for its consumer packaging products.

Property segment posted a robust yoy growth driven by strong construction progress

2QFY/24's property EBIT grew 42.8% yoy, fuelled by higher sales and strong construction progress across its property projects. This led to an increase in the property segment's revenue share from 32% in 1HFY23 to 42% in 1HFY24, and its EBIT share rising from 60% in 1HFY23 to 70% in 1HFY24. A total of RM657m gross development value (GDV) projects were launched in 1HFY24 (1QFY24: RM277m, 2QFY24: RM380m). While lagging behind (c.31%) its FY23 total launches: RM2.1bn, we are not overly concerned as the segment's sales tend to be back-end loaded in 2HFY (averaging at 56% in 2H in the past 5 FYs). Unbilled sales were RM1.5bn as of Jan 2024 (vs. RM1.6bn as of Oct 2023).

Reiterate Buy with a higher TP at RM4.40 (from RM4.15) – a property play

Post-results, we raise our earnings forecast for the FY24F-FY26F by 14.2%-14.5% to factor in (i) higher margin for its packaging segment; and (ii) higher sales contribution from the property segment. Reiterate Buy with a higher SOP-based TP at RM4.40 (from RM4.15) – which implies a 11x CY25F PE, in-line with its 5-year forward mean P/E. We have changed our valuation approach for its property segment from P/BV to RNAV, to better reflect Scientex's fair value. We like its strong management track record and promising property prospects. Downside risks: (i) weaker consumer packaging demand; (ii) slow take-up of new property launches.

Exhibit 1: Quarterly financial results

FYE Jul (RM m)	Jan-23	Apr-23	Jul-23	Oct-23	Jan-24	Change (%)		Cumulative		Change (%)	CIMB	
	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	QoQ	YoY	1HFY23	1HFY24	YoY	FY24F	6M/F
Revenue	978.4	997.1	1,071.5	1,106.5	1,092.7	(1.2)	11.7	2,008.3	2,199.2	9.5	4,379.5	50%
~ Packaging	655.1	635.4	619.7	650.4	635.8	(2.2)	(2.9)	1,371.1	1,286.2	(6.2)	2,634.0	49%
~ Property	323.3	361.7	451.8	456.1	456.9	0.2	41.3	637.2	913.0	43.3	1,746.0	52%
Interest Expense	(9.8)	(8.2)	(7.5)	(6.9)	(5.0)	(28.2)	(49.1)	(17.8)	(11.9)	(33.2)		
Interest Income	0.5	2.5	1.2	0.9	1.1	24.2	104.2	1.1	2.0	75.3		
Depreciation	(30.9)	(30.9)	(31.5)	(33.1)	(32.9)	(0.6)	6.4	61.4	66.0	7.6		
EBITDA	178.4	180.8	180.5	221.6	224.2	1.2	25.7	356.2	445.8	25.2		
Operating Profit	147.5	149.8	148.9	188.5	191.3	1.5	29.7	294.8	379.7	28.8		
~ Packaging	58.3	44.5	24.3	50.4	64.0	26.8	9.7	115.2	114.4	(0.7)	190.3	60%
~ Property	89.1	105.4	124.7	138.0	127.3	(7.7)	42.8	175.6	265.3	51.1	472.9	56%
Reported PBT	141.5	145.0	145.6	184.7	188.7	2.1	33.4	278.2	373.4	34.2		
Taxation	(29.1)	(30.1)	(37.2)	(42.3)	(43.0)	1.7	47.5	(52.4)	(85.3)	62.6		
Minority Interest	(6.0)	(5.1)	6.5	(4.6)	(4.7)	0.8	(22.7)	(12.3)	(9.3)	(24.4)		
Exceptional items	(5.9)	(4.3)	(20.3)	2.7	9.0	240.0	(253.3)	(11.4)	11.7	(202.3)		
Reported Profit	106.3	109.8	114.9	137.8	141.0	2.3	32.7	213.5	278.9	30.6		
Adj. Net Profit	112.2	114.1	135.2	135.2	132.0	(2.4)	17.7	224.9	267.2	18.8	492.0	54%
EPS (sen)	6.9	7.1	7.4	8.9	9.1	2.3	32.6	13	18	41.9		
Adj EPS (sen)	7.2	7.4	8.7	8.7	8.5	(2.4)	17.6	15	17	18.8		
DPS (sen)	-	5.0	5.0	-	-	nm	nm	-	-	nm		
						%-pts	%-pts			%-pts		
Effective tax rate (%)	20.6	20.8	25.5	22.9	22.8	(0.1)	2.2	18.9	22.8	4.0		
EBITDA margin (%)	18.2	18.1	16.8	20.0	20.5	0.5	2.3	17.7	20.3	2.5		
Operating margin (%)	15.1	15.0	13.9	17.0	17.5	0.5	2.4	14.7	17.3	2.6		
~ Packaging (%)	8.9	7.0	3.9	7.8	10.1	2.3	1.2	8.4	8.9	0.5		
~ Property	27.6	29.1	27.6	30.3	27.9	(2.4)	0.3	27.6	29.1	1.5		
Pretax margin (%)	14.5	14.5	13.6	16.7	17.3	0.6	2.8	13.9	17.0	3.1		
Net margin (%)	11.5	11.4	12.6	12.2	12.1	(0.1)	0.6	11.2	12.1	1.0		

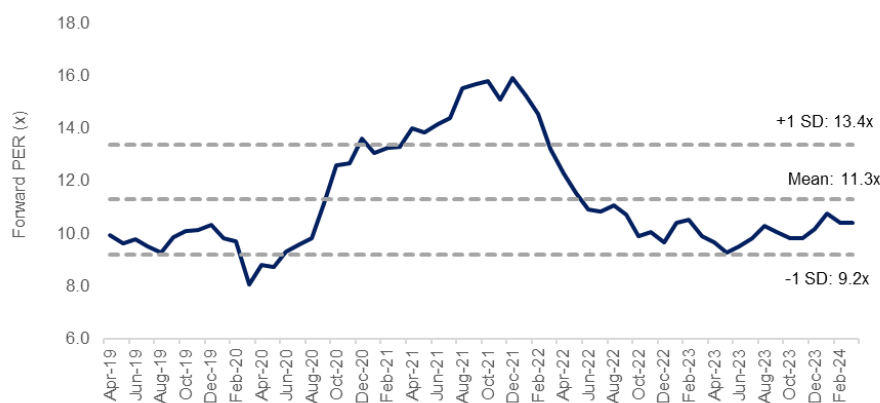
Source: Company, CIMB Securities

Exhibit 2: Sum-of-parts valuation

Segment	Valuation (RMm)
Manufacturing	11x CY25F PE 2,001
Property	30% discount to RNAV 4,826
Equity value (RMm)	6,827
Outstanding shares (m)	1,551
Target Price (RM/share)	4.40

Source: CIMB Securities

Exhibit 3: 5-year forward P/E



Source: Bloomberg, CIMB Securities

Income Statement

FYE Jul (RMm)	2022	2023	2024F	2025F	2026F
Revenue	3,985	4,077	4,408	4,699	4,991
EBITDA	681	713	890	940	972
Depreciation/Amortisation	(114)	(124)	(132)	(124)	(118)
Operating income (EBIT)	561	590	758	816	854
Other income & associates	8	13	14	15	15
Net interest	(20)	(34)	(27)	(37)	(25)
Exceptional items	(9)	(36)	0	0	0
Pretax profit	548	569	745	793	844
Taxation	(116)	(120)	(171)	(182)	(194)
Minorities/pref dividends	(23)	(11)	(12)	(12)	(13)
Net profit	410	438	562	598	637
Core net profit	419	474	562	598	637

Balance Sheet

FYE Jul (RMm)	2022	2023	2024F	2025F	2026F
Fixed assets	1,464	1,558	1,476	1,402	1,335
Intangible assets	330	305	305	305	305
Other long-term assets	1,783	1,571	2,071	2,571	2,771
Total non-current assets	3,582	3,439	3,857	4,283	4,415
Cash & equivalent	191	166	168	171	156
Stock	449	377	408	435	462
Trade debtors	872	874	945	1,008	1,070
Other current assets	380	649	649	649	649
Total current assets	1,892	2,066	2,169	2,262	2,337
Trade creditors	820	790	854	911	968
Short-term borrowings	921	767	767	767	467
Other current liabilities	38	120	120	120	120
Total current liabilities	1,779	1,677	1,741	1,798	1,554
Long-term borrowings	250	70	120	170	170
Other long-term liabilities	132	145	145	145	145
Total long-term liabilities	382	215	265	315	315
Shareholders' funds	3,110	3,392	3,799	4,211	4,662
Minority interests	198	214	214	214	214

Cash flow Statement

FYE Jul (RMm)	2022	2023	2024F	2025F	2026F
Pretax profit	548	569	745	793	844
Depreciation/Amortisation	114	124	132	124	118
Net change in working capital	176	198	(37)	(33)	(33)
Others	(101)	(86)	(145)	(145)	(169)
Cash flow from operations	738	805	695	739	760
Capital expenditure	(172)	(123)	(50)	(50)	(50)
Net investments & sale of fixed assets	(487)	(150)	(500)	(500)	(200)
Others	(8)	4	(12)	(12)	(13)
Cash flow from investing	(668)	(270)	(562)	(562)	(263)
Debt raised/(repaid)	45	(352)	50	50	(300)
Equity raised/(repaid)	0	0	0	0	0
Dividends paid	(153)	(162)	(155)	(186)	(186)
Others	(15)	(45)	(27)	(37)	(25)
Cash flow from financing	(123)	(560)	(132)	(174)	(512)
Net cash flow	(52)	(25)	1	3	(15)
Net cash/(debt) b/f	243	191	166	168	171
Net cash/(debt) c/f	191	166	168	171	156

Key Ratios

FYE Jul	2022	2023	2024F	2025F	2026F
Revenue growth (%)	9.0	2.3	8.1	6.6	6.2
EBITDA growth (%)	(4.1)	4.8	24.7	5.6	3.4
Pretax margins (%)	13.8	13.9	16.9	16.9	16.9
Net profit margins (%)	10.3	10.7	12.8	12.7	12.8
Interest cover (x)	27.4	17.6	28.5	21.8	33.5
Effective tax rate (%)	21.1	21.1	23.0	23.0	23.0
Net dividend payout (%)	34.1	35.4	30.4	31.1	31.7
Debtors turnover (days)	80	78	78	78	78
Stock turnover (days)	41	34	34	34	34
Creditors turnover (days)	75	71	71	71	71

Source: Bloomberg, CIMB Securities

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Hold	The stock's total return is expected to be between 0% and positive 10% over the next twelve (12) months.
Reduce	The stock's total return is expected to fall below 0% or more over the next twelve (12) months.
	<i>Note: The total expected return of a stock is defined as the sum of:</i> <i>(a) the percentage difference between the target price and the current price; and</i> <i>(b) the forward net dividend yields of the stock. Stock price targets have an investment horizon of twelve (12) months.</i>
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